

Financial Analyst Forecast – Pre, During and after Malaysian Movement Control (MCO)

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Abstract: Malaysia aims and targets to become a fully developed country in year 2020 and the government has done best to ensure country can achieve the target. Moreover, Malaysia shows the commitment and the earnestness to be a dedicated international financial hub and promoting Kuala Lumpur as a new nucleus of global economic growth. As for the improvement of market operation since 1997, investment from institution, individual and foreign investor in Malaysia stock market has shown a rapid growing. However, the phenomena of during year 2007 and some event recently has caused a huge floatation in the stock market and analyst cannot perform in predicting well. This study will further deepen and discuss qualitative findings with analysts by having them participate in in-depth interviews with us. One of the most important things that might be learned from our research is that analysts anticipate that the epidemic will hasten the process of include information about sustainability in evaluations of companies.

Keywords: Analyst, stock market, stock analysis.

1. Introduction

Malaysia stock market also known as Bursa Malaysia is one of the biggest stock trading markets in Eastern Asia, the market gathered fast momentum upon globalization due to the Malaysia open market policy. During 1990s, the Malaysia stock market is relatively a small market. The development of Malaysia stock market starts from 1980s and can be classified into 3 periods accordingly that is late of 1980s, early of 1990s and during the financial crisis of 1997. First period from the timeline will be during the late of 1980s where modernization process starts to take place in Malaysia stock market, where many liberal financial policies has been implemented to attract foreign capitals in order to promote market growth (Yeoh, Hooy, & Arsad, 2010). When come to the early 1990s, the stock market was fueled by substantial inflows of short-term capital. Besides that, effort on establishment of new institutions can be seen following by the introduction of securities commission during 1993. Financial Crisis that occurred during 1997 has led to the improvement of the market operation by market authorities and a master plan was implemented to govern the

future development of Malaysia stock market (Karim & Gee, 2006). Over the year, Malaysia stock market has shown a significant growth from both the number of companies listed and also the amount of capital in the market. The number of companies listed in the market has increase from 271 in 1990s to more than 500 companies when entering 2000s. The market capitalism also has shown an increase of over 600% when compared to 1990s.

As for the improvement of market operation since 1997, investment from institution, individual and foreign investor in Malaysia stock market has shown a rapid growing. However, the financial crisis during year 2007 has causes a huge floatation in the stock market and bring a huge amount of lose to investor causing the damaged of investor confident toward the market because of its unpredictability (Amir Angabini & Shaista Wasiuzzaman, 2011). The question does arise from here as investor starting to doubt the reliability of market prediction.

During crisis, business is turn down and majority are close due to the firm gain a loss in their investment. Financial analyst faced a difficulty in the prediction at this time because the economies are uncertainty, and most of the market and business are down. According to (Garling, Kirchler, Lewis, & van Raaij, 2009) it is difficult to do the prediction or forecasting during crisis and analyst prediction can become widely disperse. Furthermore, Avramov, Chordia, Jostova, & Philipov, (2009) found that the uncertainty in expected cash flow will occurs if there is disperse in analyst forecast. However, as an expert analyst, during normal period or difficult time the forecast or prediction must be the same and cannot be different. Analyst cannot be bias in forecast during normal period and so as during crisis. Moreover, Anolli, Beccalli, & Molyneux, (2014) found that during crisis the ability of the analyst forecast reduce, and the forecast is worse due to uncertainty. At this time, forecast error also increase compared with during normal period.

Zhang (2006) found that the analyst will publish optimistic forecast error during the crisis, and they will issue incorrect direction to the earning release.

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(Miller & Sedor, 2014) found that if the level of uncertainty regarding future earning is high, high, or lower stock price may lead forecast follow by the analyst. It means that if the stock price is high, so analyst will forecast will be the same.

Instead of that, during normal period the analyst forecast error is reduce if the management releasing their estimate or forecast (Hassell, Jennings, & Lasser, 1988). Analyst will combine all the information available in general, inside, or outside to ensure they can produce and publish useful earning forecast. Consistent management forecast will be useful for the knowledgeable investors and expert analysts in issued relevance forecast (Hilary, Hsu, & Wang, 2014). However, some analysts' they worried to publish the accurate and truth regarding the exact result due to some reason. Jackson (2005) found that the analysts are in a conflict between telling the truth because they try to protect their reputation and to gain a higher commission in trading. So, they would just produce the nice result to ensure the investors and management keep on rely on them. This situation may lead the analysts to increase the probabilities in producing the forecast bias. They tend to be bias in a situation that they refuse to issue accurate prediction and viewing optimistic views. Analysts publish the forecast result with the hope that the result will be happened but, it is not likely.

2. Literature Review

A. Financial Analyst

Financial analyst is professional body who also known as the parties who evaluate the business, forecast earning of the company and provide the information to the investor as a guide before they invest in the company or stock. The principal job of financial analyst is to provide the information to the customer ie: investor. They also make a recommendation to specific stock which is better and good for making an investment. Analyst must adopt and incorporate new information immediately before them making any recommendation. These are important step to avoid them making a bias forecast. However, this recommendation making by the human and cannot avoid mistake. According to (Ding, Charoenwong, & Seetoh, 2004), the accuracy of the recommendation by the analysts' forecasts more significant during positive earnings growth, but during the negative earnings growth period analyst being said to be more optimistic when making a forecast analyst also refers to the past performance of the stock. Numerous studies have been documented a relationship between the past performances to forecast future return. According to (Clement, Hales, & Xue, 2011), they found that it is a positive connection between past stock return and analyst forecast revision. Extensive study has been widely done by previous researcher regarding financial analyst forecast. (Gu & Wu, 2003) proved in their research that the accuracy of the forecast is the main characteristic to show the performance of analyst forecast. Moreover, (Stickle, 1992) found that the price will move up if the analyst is being rewarded. It shows that the characteristic of the analyst also play an important role to the direction of the forecast performance. Furthermore, (Jackson, 2005) also prove that the

price will be in a good performance and highest if the accuracy of the forecast is greater.

The important of investigating the earnings forecast by the analyst was initially recognize by previous researcher that suggest "an investigating the analyst forecast is very applicable to well explain in term of making investment decision and provide some information in future in the process of forecasting the earnings of the firm". This investigation also will help the group of analysts in well understanding regarding stock market and generating forecast. (Gray,1974) Hence, by exploring the determinants of analyst earnings forecast during crisis may contribute to well understanding of the analyst activities, and more generally to well understood Malaysia financial market.

B. Analyst Bias

Forecast bias refers to the deviation or gap between the actual value and forecast value. According to (Lim, 2001), under strategic reporting explanation analyst are assumed to be a rational forecaster. Surprisingly analyst is issuing optimistic forecast to ensure they can generate more revenue in generating business for their brokerage firms. Furthermore, under the selection bias (McNichols & O'Brien, 1998), analyst has been said to be rational forecaster and truthful, but they are being bias because they worried to losing the management trust and a source of information and they also worried to losing the trading commission. Previous researcher has generally suggested that because of certain reason has force the analyst to be bias and not show the true predictions towards more optimistic view. Most of the financial analyst may censor their forecast if they found that the prospects of the firm are unfavourable and this situation may lead to optimism in observed forecast (Gu & Wu, 2003). Moreover, McNichols & O'Brien, (1998) implies that those forecast on the unfavourable firm that being hiding by financial analyst is may be pessimistic. According to (Gu & Wu, 2003) they argue the bias and accuracy is inherent. When earning distribution is skewed it drives the accuracy and result bias in forecasting. Previous research just explaining regarding analyst forecast optimism.

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D. Analyst Forecast

There is several of literature found that the important part of analyst forecast is an accuracy on the result and performance they produce. (Clement, Tse, & Clement, 2014) stated that the analyst expertise is the parties who could extract the information from the action of others. Analyst who is sensitive and take note to the signal informativeness will achieve superior result and have a great influence in the market. This has been argue by (Basu & Markov, 2004), found that analyst is not relying on public information efficiently in the process of forecast. However, as an expert analyst, they cannot be bias in predicting and forecasting, especially during an uncertainties period. (Miller & Sedor, 2014) document that, during

uncertainty the lower the stock price, the lower the forecast by the analyst and vice versa. During the market crash analyst has been said to be more bias in forecasting. Moreover, (Choi, Chen, Wright, & Wu, 2014) has proved that during uncertainty period, the forecast will be less accurate and have an optimistic bias. Optimism bias can be reduced by regulation, however, the benefit are limited because the cognitive bias is said to be a linkage between an optimism biases (Corredor, Ferrer, & Santamaria, 2014). Furthermore, (Jung, Pae, & Yoo, 2015) state that the analysts are bias in forecast the earning for the stock that has a good performance previously and vice versa. They tend to be bias and inaccurate by increase the value of the price. Hence, they will downgrade the value of the stock that not performed well previously. So, there must be a different between the actual and the forecast after then. Instead of this, there are expert analysts that can perform well, and they adopt all the information, current situation, outside and inside information in the process of forecasting. (Jiani & Liu, 2014) document that, with the effective forecast value by analyst, proved that it can help the investor to achieved and gain the significant value. (Shi, Zhang, & Guo, 2014) agree with the (Defond & Hung, 2003) that the analyst forecast help to reduce the manipulation and improved the earning quality of the stock or pricing. Investor can gain a benefit by referring to the analyst forecast information in predicting a good performance of the stock. Furthermore, the study by (Yang & Chen, 2013) the stock getting good reputation by analyst will gain a good responsive by the investor and would achieve a good performance regarding abnormal return as they followed the recommendation by the expert analyst (Bjerring, Lakonishok, & Vermaelen, 2014).

The highest and more attention given to the company by the analyst may temporarily cause the price of the company up or down. Lower value of earnings surprise may cause a large change in the price of the company and cause a million losses to the shareholders. (Kothari *et al.*, 2006).

3. Methodology

To achieve the objective, this study will adopt a survey from the groups of 20 respondents which is who involve directly or indirectly with the process of analyst's analysis using interviews. This is to obtain data on the existing practices as an analyst as well what should be the best practice as an analyst.

A. Population and Samples

We will further deepen and discuss our qualitative findings with analysts by having them participate in in-depth interviews with us. One of the most important things that can be learned from our research is that analysts anticipate that the epidemic will hasten the process of include information about sustainability in evaluations of companies. Nevertheless, they are all in agreement that economic considerations were the primary focus of their forecasting efforts at the beginning of the pandemic.

B. Interviews

The research will make use of both unstructured and semi-structured interviews at various depths. Reason because the area of analyst in Malaysia is still ambiguous in terms of the real practise, the unstructured interview methods will be implemented in this research. According to Sekaran (2003), it is essential to carry out the unstructured portion of this study since it will bring the key issues to the surface, allowing for the subsequent further inquiry and the in-depth investigation to be carried out.

To answer part of the research aim, the semi-structured interviews require an in-depth understanding of the perspectives that the respondents hold on the phenomena that is being studied. More specifically, the purpose of the study is to investigate the issues surrounding analysts' current practices.

According to Edwards and Holland (2020), the approach of the in-depth semi-structured interview is effective in research since the researcher aims to acquire an in-depth grasp of the perspectives of the respondents. In a nutshell, the in-depth interviews that are semi-structured allow the respondents to freely express their opinions without reservation. In addition, the respondents concentrated their attention, for the most part, about the study. This is because the purpose of the research is to provide responses to the research questions. The interview will begin in an informal tone, and as a result, the respondents will be able to provide their opinions and thoughts in a relaxed manner that is yet factual. In the meantime, respondents will be given the opportunity to investigate the topics that will be brought up during the dialogues to provide answers to the research questions posed by this study.

C. Recording Semi-Structured Interviews

In order to deliver the interview data gathered more electively in the research, the video recording during the interview session is more appropriate decision to make for this study's purposes. Nevertheless, notes will also be taken, and the entire interview will be carried out in English language. All the interviews will be carried out in English language. This was acceptable for the study given that the respondents, all of whom are analysts, are professional parties whose mother tongue is typically English. After the interview session has been completed and the data has been collected, the data from the recorded interview will subsequently be transcribed. The interview session will, for the most part, be done face to face between the interviewer and respondents for a period ranging from thirty minutes to one hour, and the dialogue will be recorded using a video recorder with the participants' permission (Edwards & Holland, 2020).

4. Conclusion

The forecasts are vital not only to businesses but also to the general public for making intelligent decisions relating to the stock market, the attention of researchers has been called to the accuracy of the estimates made by analysts. Problematic features need to be addressed with a thorough examination because doing so can empower firms and the general public to make informed decisions regarding stock-related issues. In

addition to that, it is the analyst's job to produce forecasts of future accounting earnings in addition to other facts concerning the future. The purpose of this study is to aid investors and players in gaining a better understanding of the accuracy of analysts' projections. When investors make use of the accurate prognosis that is supplied by analysts, they are able to increase the quality of the investment decisions that they make. Businesses are able to obtain a better knowledge of the precision of the projections made by their own analysts and gain a deeper comprehension of the elements that will contribute to their long-term financial performance with the assistance of accurate analyst forecasts. This is because accurate analyst forecasts are provided by accurate analysts. On the other hand, it's possible that the significance of this study isn't as great as it may be.

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